

Sopra Steria Group

Price EUR104.00

H1 2016 analysts' meeting feedback: delivering on promise

Fair Value EUR125 vs. EUR127 (+20%)

BUY

Bloomberg	SOP FP
Reuters	SOPR.PA
12-month High / Low (EUR)	119.0 / 84.5
Market Cap (EUR)	2,130
Ev (BG Estimates) (EUR)	2,651
Avg. 6m daily volume (000)	28.30
3y EPS CAGR	15.6%

We reiterate our Buy rating, but trim our DCF-derived fair value to EUR125 from EUR127. We increase our adj. EPS ests. by 1% for 2016, 3% for 2017 and 4% for 2018 (+EUR3/share), but the EUR98m increase in the net pension provision in H1 2016 has a negative impact of -EUR5/share. Brexit is expected to have virtually no impact this year, and Sopra Steria is confident that it can reach the high-end of company guidance on lfl sales growth (+3%/+5%). Finally, the restructuring of Germany and the French infrastructure business is bearing fruit.

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.5%	2.0%	5.3%	-4.0%
Softw. & Comp.	15.2%	7.2%	9.3%	4.0%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

ANALYSIS

- 2016 revenues confirmed at the high-end of company guidance.** Based on the 6.3% lfl revenue growth posted for H1, management remains committed to the high-end of company guidance (+3%/+5%) for lfl growth for 2016. In France, Consulting & Systems Integration, which were helped by calendar effects in Q2, are still on a normative trend of +5%/+6% excluding calendar effects, while I2S is in line to grow again in 2017 and maybe end 2016 thanks to completion of the reorganisation. In the UK, while 68% of revenues are from the government (32% in the commercial sector), Brexit is deemed to have no impact in 2016. The Cabinet Office reaffirmed its commitment to pursuing the transformation of government services and public agencies through shared services centers (SSCL, NHS SBS), but the Metropolitan Police is unlikely to join SSCL before H2 2017 for technical reasons. In the UK commercial sector, Sopra Steria has returned to growth in Banking, while the appointment of new management will facilitate a return to growth in Q4 2016 or H1 2017 in the other industries. For Sopra Banking Software, the momentum is good with 6 new customers and 11 'go-lives' on Amplitude and good progress with La Banque Postale (partnership with Transactis which is expected to generate revenues by 2018). Growth in Other Solutions is set to accelerate in H2 2016, following the late signing in Q2 of several sizeable deals in HR.
- Still room for improvement on the margins.** We estimate the bulk of the margin improvement in 2016 will stem from Germany and I2S, which significantly improved their situation in H1 2016. The plan is still to bring back I2S to an operating margin above 5% in 2017 vs. 0.5% in H1 2016 with restructuring under way. In the UK, the margin is pretty encouraging and should grow again in 2017. In 'Other Europe', the improvement in Germany is spectacular and most countries are in line for 7% margin in 2017. For Sopra Banking Software, the margin in 2016 will be hampered by the acceleration of R&D investments in order to accelerate the delivery of the products, and this investment will remain constant in 2017 in order to reach an operating margin of c. 10%.
- Other topics.** 1) In H1 2016 the net pension provision for the UK increased to EUR222m from EUR125m, but this was equivalent to that of end 2014 and June 2015; 2) with net gearing of 69% and leverage of 2.2x EBITDA at the end of June, Sopra Steria intends to make a break in acquisitions for the rest of 2016, but may resume in 2017 in a more significant way as it has EUR1bn available credit lines maturing in 2019 and 2021; 3) the company has put in place a groupwide employee shareholding plan (100,000 shares sold to employees + 100,000 shares as employer contribution), which makes that Sopra Steria has 8-9% of its share capital owned by employees.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	3,584	3,743	3,907	4,108
% change		4.4%	4.4%	5.1%
EBITDA	295	340	385	417
EBIT	152.6	239.9	284.8	315.8
% change		57.2%	18.7%	10.9%
Net income	150.9	181.0	213.0	233.8
% change		20.0%	17.6%	9.8%

	2015	2016e	2017e	2018e
Operating margin	6.8	7.8	8.5	8.9
Net margin	2.4	4.0	4.6	4.9
ROE	6.8	11.9	13.0	13.0
ROCE	11.0	11.6	13.2	14.2
Gearing	43.0	42.0	28.1	16.8

(€)	2015	2016e	2017e	2018e
EPS	7.38	8.84	10.40	11.41
% change	-	19.8%	17.6%	9.8%
P/E	14.1x	11.8x	10.0x	9.1x
FCF yield (%)	2.3%	4.6%	7.4%	8.5%
Dividends (€)	1.70	1.90	2.10	2.30
Div yield (%)	1.6%	1.8%	2.0%	2.2%
EV/Sales	0.7x	0.7x	0.6x	0.6x
EV/EBITDA	9.0x	7.8x	6.5x	5.7x
EV/EBIT	10.8x	9.1x	7.6x	6.5x



VALUATION

- Sopra Steria's shares are trading at est. 9.1x 2016 and 7.6x 2017 EV/EBIT multiples.
- Net debt on 30th June 2016 was EUR719.6m (net gearing: 69%).

NEXT CATALYSTS

Q3 16 sales on 3rd November after markets close.

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